IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO | DIVISION OF FINANCIAL MANAGEMENT | JUNE 2001 VOLUME XXI NO. 12

President George W. Bush signed into law the $1.35 trillion federal tax cut package on June 7, 2001. The economic intent of this package is twofold. First, it is hoped that it will help kick start the U.S. economy and help avoid a recession. Second, it is designed to sustain economic growth over the long run. Our discussion will focus on the design and the predicted outcome of the former. Early in the new president's administration, signs began to surface that the economy was beginning to slow and that the record-breaking expansion was in danger of ending. The plan was to quickly get more money into the hands of American consumers in order to stimulate spending and keep the economy growing.

Policymakers considered two ways of doing this. They could either lower federal income tax withheld from paychecks or provide taxpayers with a rebate. The major advantages of the withholding option are that it can be done easily and it would get money to taxpayers quickly. In this approach the money is returned over a long period of time in small increments. Because of this, it might not get spent, or even noticed. That's why a lump-sum payment would be more likely to get people's attention and increase demand, so the tax package includes $100 million in rebates. Single filers will get a rebate of up to $300, head of household filers will receive up to $500, and joint filers are entitled to a maximum rebate of $600. The plan is to deliver the bulk of the rebate checks by October 1, 2001. As a result, adults will be checking their mail more frequently than when they were kids waiting for packages from Battle Creek, Michigan. So be patient, your check is in the mail!

This course of action is not without risk, however. The biggest fear is that consumers will save, rather than spend, their rebates. This would frustrate the attempt to keep the economy moving. This has happened before. During the Ford administration a similar rebate plan produced disappointing results because consumers refused to spend. Ravaged by high inflation and high unemployment, most of this windfall ended up in consumers' mattresses instead of in cash registers.

The current rebate should be more stimulating than the Ford rebate. The Ford rebate was an attempt to get out of a recession, while the current one is an attempt to prevent a recession. As such, current conditions are more favorable to spending the rebate. Unemployment is low. Inflation is low. Consumer confidence is still high by historical standards. Thus, consumers are less apt to squirrel away this new found money.

DRI-WEFA assumes that about half of the $100 million rebate will be spent by the end of this year. This should dovetail nicely with the Fed's current loosening. Together they should provide a nice bounce later this year. Even with this additional stimulation, inflation is not expected to reignite. It appears that the stock market may have bottomed out in April 2001. If this is indeed the case, it points to faster economic growth in the fall. This is because a stock market recovery usually leads an economic recovery by about a half a year.

****

Welcome Aboard!

The staff at the Idaho Division of Financial Management would like to welcome aboard its newest addition, Wynette Davis. Wynette was previously with the Idaho Department of Health and Welfare for almost nine years. During this time she honed her administrative and computer skills. These will be well appreciated, as she will be a key contributor to the Division's numerous publications.

DIRK KEMPTHORNE, Governor

Division of Financial Management
700 W Jefferson, Room 122
PO Box 83720
Boise, Idaho 83720-0032 (208) 334-3900
ADDRESS SERVICE REQUESTED

Brian Whitlock, Administrator

Economic Analysis Bureau
Michael H. Ferguson, Chief Economist
Derek E. Santos, Economist

General Fund Update

As of May 31, 2001

	$ Millions		
Revenue Source	FY01 Executive Estimate[3]	DFM Predicted To Date	Actual Accrued To Date
Individual Income Tax	1024.2	967.6	961.1
Corporate Income Tax	170.0	129.2	126.7
Sales Tax	658.0	600.2	588.8
Product Taxes[1]	20.6	18.8	18.8
Miscellaneous	127.0	88.2	101.1
TOTAL GENERAL FUND[2]	**1999.8**	**1804.0**	**1796.5**

1 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
2 May not total due to rounding
3 Revised Estimate as of January 2001

General Fund revenue collections sank $13.4 million in May, bringing fiscal year-to-date revenue $7.5 million below expectations. May's revenue performance was worse than any other month this fiscal year, and reflects continued weakening in both the state and national economies. With just one month to go in the fiscal year it appears likely the General Fund will fall short of the current forecast for FY 2001.

Individual income tax collections were $4.8 million lower than expected in May. The bulk of May's individual income tax weakness was in withholding collections (short by $4.0 million), continuing a pattern that emerged late in calendar year 2000. Filing collections were low by a modest $0.7 million and refunds were only $0.1 million higher than expected. On a year-to-date basis filing payments are $9.3 million higher than expected, refunds are $2.0 million lower than expected, and withholding payments are $16.4 million (2.1 percent) lower than expected.

The corporate income tax was $7.4 million lower than expected in May. Filing collections were $2.8 million lower than expected for the month, estimated payments were $1.0 million lower than expected, and refunds were $3.9 million higher than expected.

Sales tax collections were $2.5 million lower than expected in May. May's collections were actually one-half percent lower than the same month a year ago and fiscal year-to-date collections are up only 2.8 percent, as compared to the forecast of 4.9 percent growth. There is now no doubt that sales tax revenue will miss this year's forecast by a fairly wide margin.

Product taxes were $0.2 million lower than expected in May due to a slight weakness in cigarette and tobacco tax collections. Miscellaneous revenue was $1.4 million higher than expected for the month of May. This strength is due to higher-than-expected collections from the estate tax, insurance premium tax, and unclaimed property.